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THE ENTERPRISE ZONE EMPLOYMENT AND DEVELOPMENT ACT OF 1983

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

PROPOSED LEGISLATION ENTITLED, "THE ENTERPRISE ZONE EMPLOYMENT AND DEVELOPMENT ACT OF 1983"

MARCH 8, 1983.—Message and accompanying papers referred jointly to the Committees on Ways and Means, the Judiciary, and Banking, Finance and Urban Affairs, and ordered to be printed

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To the Congress of the United States:

I am transmitting to the Congress today legislation entitled, "The Enterprise Zone Employment and Development Act of 1983." This legislation will provide for the creation of meaningful jobs within the private sector and the long-term revitalization of our Nation's most depressed areas. It is offered as one element of a comprehensive jobs package intended to attack unemployment, including such other elements as supplemental unemployment benefits, tax credits for hiring the long-term unemployed, a summer youth program, and additional funds for job training and relocation assistance.

In my January 25 State of the Union message, I indicated that we would reintroduce Enterprise Zone legislation in the 98th Congress. While this legislation carries forward the tax and regulatory relief measures of our earlier proposal in the 97th Congress, it contains several important additions which reflect the combined wisdom of the growing coalition supporting this idea, including the ideas of the small business community, State and local officials, labor organizations and the many members of Congress who studied and debated our earlier legislation. We are confident that the net result is strong, farsighted legislation designed to unleash the creative energies of our free market economy in our most distressed urban areas. In these difficult days of high unemployment, the legislation is drafted to be of direct, primary benefit to disadvantaged workers and the long-term unemployed.

The high level of success experienced by the dozen or so State and local Enterprise Zone programs is very encouraging. Prompt Federal action is warranted to bolster State and local efforts, and it is in that spirit that I urge the early enactment of this legislation.

THE CONCEPT OF ENTERPRISE ZONES

The Enterprise Zone program will improve the private sector's ability to provide new employment opportunities, and in turn, urban regeneration. It creates a productive free market environment in economically depressed areas by reducing taxes, regulations and other government burdens on economic activity. The removal of these burdens will create and expand economic opportunity within the zone areas, allowing business firms and entrepreneurs to create jobs—particularly for disadvantaged workers—and expand economic activities.

Enterprise Zones are a fresh approach for promoting economic growth in the inner cities. The old approach relied on heavy government subsidies and central planning. A prime example was the Model Cities program of the 1960s, which concentrated government programs, subsidies and regulations in specific, depressed urban areas. The Enterprise Zone approach would remove government barriers, freeing individuals to create, produce and earn their own wages and profits.

Mindful of the need to control public expenditures, Enterprise Zones require no Federal appropriations other than necessary administrative

expenses. Of course, states and cities have the option of allocating existing Federal funds for their Enterprise Zones if they desire, or to appropriate additional funds of their own for such zones.

Enterprise Zones are more than just a Federal initiative. State and local contributions to these zones will be critically important in the competitive, Federal designation of zones, and probably determine whether individual zones succeed or fail. In keeping with Constitutional requirements of federalism, State and local governments retain broad flexibility to develop the contributions to their zones most suitable to local conditions and preferences.

THE ELEMENTS OF ENTERPRISE ZONES

The Enterprise Zone program includes four basic elements:

—Tax reduction at the Federal, State and local levels to lessen the economic impediments to business investment and employment.

—Regulatory relief at the Federal, State and local levels to reduce costly burdens which are unnecessary to legitimate health and safety concerns.

—New efforts to improve local services, including experimentation with private alternatives to provide those services.

—Neighborhood involvement so that local residents participate in the economic success of their zones. For example, resident owned Enterprise Zone businesses might provide local services which were previously monopolized by government.

By combining all these elements, we will create the right economic environment for our Nation's depressed areas.

THE STRUCTURE OF THE ENTERPRISE ZONE PROGRAM

Title I of the Act describes the program's structure and how the zones will be established.

The initial designation or establishment of each zone will depend on local leadership and initiative. To obtain the Federal incentives for Enterprise Zones, State and local governments must nominate eligible areas to the Secretary of HUD.

As defined by the Act, eligible areas include all UDAG eligible jurisdictions which have significant unemployment, poverty or population loss. Based on these criteria, currently more than 2,000 cities, rural areas and Indian reservations qualify. The Enterprise Zone program is a potential source of economic assistance to distressed areas of all types, shapes and sizes, all across the country.

The Secretary of HUD will be authorized to designate up to 75 zones over a three-year period. The actual number designated will depend on the number and quality of the applications.

Federal designation of nominated zones is not automatic. The Secretary of HUD will evaluate the various applications on a competitive basis, choosing the best applications for the limited number of Federal designations authorized. The key criterion in this competitive process will be the nature and strength of the State and local efforts to remove government burdens and to revitalize Enterprise Zone areas.

Thus, the Federal evaluation of State and local contributions will be highly flexible and not prescriptive. In this regard, the Secretary of HUD will not insist upon any particular item of tax and regulatory

relief. A weakness of State and local incentives in one area, such as tax relief, could be offset by greater strength in another area such as regulatory relief.

Each Enterprise Zone will last for the period chosen by the nominating State and local governments. The Federal incentives will apply to an approved zone for this entire period, up to a maximum of 20 years plus a 4-year, phase-out period.

THE FEDERAL INCENTIVES OF THE ENTERPRISE ZONE PROGRAM

Title II of the Act describes the Federal Tax incentives applying within Enterprise Zones, which includes:

A 5 percent tax credit for capital investments in personal property in an Enterprise Zone;

A 10 percent tax credit for the construction or rehabilitation of commercial, industrial or rental housing structures within a zone;

A 10 percent tax credit to employers for payroll paid to qualified zone employees in excess of payroll paid to such employees in the year prior to zone designation, with a maximum credit of $1,750 per worker;

A special, strengthened tax credit to employers for wages paid to qualified zone employees who were disadvantaged individuals when hired, with the credit equal to 50 percent of wages in each of the first 3 years of employment, declining by 10 percentage points in each year after that;

A 5 percent tax credit, up to $525 per worker to qualified zone employees for wages earned in zone employment;

The elimination of capital gains taxes for qualified property within Enterprise Zones;

The designation of suitable Enterprise Zone areas as Foreign Trade Zones, providing relief from tariffs and import duties for goods subsequently exported to other countries;

The continued availability of Industrial Development Bonds to small business in Enterprise Zones, even if the availability of such bonds is terminated elsewhere; and

The permission for excess Enterprise Zone tax credits to be carried back three years and forward up to the life of the zone.

The Federal tax reductions applying to Enterprise Zones are substantial. They include reductions for employers, employees, entrepreneurs and investors. They include incentives for attracting venture capital, hiring workers, particularly disadvantaged workers, and starting and building up new businesses. They include the reduction, and in some cases elimination, of corporate income taxes, individual income taxes and capital gains taxes.

The cost of the Enterprise Zone tax package should be minimal given the small amount of tax revenue presently generated in Enterprise Zones. Moreover, as the Enterprise Zone concept succeeds, the tax revenue attendant to increased economic activity should offset the tax losses in the initial years.

Title III of the Act describes the Federal regulatory relief applying within Enterprise Zones. Under these provisions, State and local governments may request relief for their Enterprise Zones from any

Federal regulation, unless it would directly violate a requirement imposed by statute. There is no authority for any Federal regulatory relief within an Enterprise Zone without a request for such relief from both the State and local governments.

This regulatory relief authority expressly does not apply, however, to regulations designed to protect any person against discrimination because of race, color, religion, sex, marital status, national origin, age or handicap. It also does not cover any regulation whose relaxation would likely present a significant risk to the public safety, including environmental pollution. The minimum wage law would not be covered by this authority because it is specifically imposed and spelled out by statute.

THE ROLE OF STATE AND LOCAL GOVERNMENTS

While these Federal incentives are substantial, strong State and local contributions to the zones will be necessary for the program to succeed.

These contributions can be from each of the four basic categories noted earlier: tax relief; regulatory relief; improved local services; and increased participation by neighborhood organizations. More traditional urban efforts, such as job training, minority business assistance or infrastructure grants, can also be contributed to the zone. Once again, consistent with the Administration's policy of restoring the Constitutional principle of federalism, the Federal government will not dictate to State and local governments what they must contribute to the zones.

The State and local contributions to the zones need not be costly. For example, regulatory relief, service improvements through privatization, and private sector involvement all entail no budgetary cost. Finally, as with the Federal tax relief, the cost of State and local tax relief should be modest because of the little economic activity currently existing in potential Enterprise Zone areas. State and local expenditures would be reduced as individuals who formerly received government aid are employed in the zone.

The legislation I am sending you today is based on the work of many Members from both sides of the aisle. I encourage these innovative individuals to work for early, bipartisan passage of this legislation.

More than government expenditures and subsidies, residents of economically-depressed areas need opportunities. This is the focus of the Enterprise Zone program. The program will identify and remove government barriers to entrepreneurs who can create jobs and economic growth. It will spark the latent talents and abilities already in existence in our Nation's most depressed areas. The success of State Enterprise Zones confirms that the concept deserves to be given a chance to work on the Federal level.

RONALD REAGAN.

THE WHITE HOUSE, *March 7, 1983.*

ENTERPRISE ZONE EMPLOYMENT AND DEVELOPMENT ACT OF 1983

AN ACT

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SEC. 1. SHORT TITLE; AMENDMENT OF 1954 CODE.

(a) SHORT TITLE. — This title may be cited as the "Enterprise Zone Act of 1983".

(b) AMENDMENT OF 1954 CODE — Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. PURPOSES. — It is the purpose of this Act to provide for the establishment of enterprise zones in order to stimulate the creation of new jobs, particularly for disadvantaged workers and long-term unemployed individuals, and to promote revitalization of economically distressed areas primarily by providing or encouraging:

(a) tax relief at the Federal, state and local levels;

(b) regulatory relief at the Federal, state and local levels; and

(c) improved local services and an increase in the economic stake of enterprise zone residents in their own community and its development, particularly through the increased involvement of private, local, and neighborhood organizations.

TITLE I — DESIGNATION OF ENTERPRISE ZONES

SEC. 101. DESIGNATION OF ZONES.

(a) GENERAL RULE. — Chapter 80 (relating to general rules) is amended by adding at the end thereof the following new subchapter:

"Subchapter C — Designation of Enterprise Zones

"Sec. 7871. Designation.

"SEC. 7871. DESIGNATION.

"(a) DESIGNATION OF ZONES. —

"(1) DEFINITIONS — For purposes of this title, the term 'enterprise zone' means any area —

"(A) which is nominated by one or more local governments and the State or States in which it is located for designation as an enterprise zone

(hereinafter in this section referred to as a 'nominated area'), and

"(B) which the Secretary of Housing and Urban Development, after consultation with —

"(i) the Secretaries of Agriculture, Commerce, Labor, and the Treasury; the Director of the Office of Management and Budget; and the Administrator of the Small Business Administration, and

"(ii) in the case of an area on an Indian reservation, the Secretary of the Interior,

designates as an enterprise zone.

"(2) LIMITATION ON DESIGNATIONS. —

"(A) PUBLICATION OF REGULATIONS. — Before designating any area as an enterprise zone, the Secretary of Housing and Urban Development shall prescribe by regulation no later than four months following the enactment of this Act, after consultation with the officials described in paragraph (1)(B) —

"(i) the procedures for nominating an area under paragraph (1)(A),

"(ii) the parameters relating to the size and population characteristics of an enterprise zone, and

"(iii) the manner in which nominated areas will be compared based on the criteria specified in subsection (d) and the other factors specified in subsection (e).

"(B) TIME LIMITATIONS. — The Secretary of Housing and Urban Development shall designate nominated areas as enterprise zones only during the 36-month period beginning on the later of —

"(i) the first day of the first month following the month in which the effective date of the regulations described in subparagraph (A) occurs, or

"(ii) July 1, 1983.

"(C) NUMBER OF DESIGNATIONS. —

"(i) IN GENERAL. - The Secretary of Housing and Urban Development may not designate more than 75 nominated areas as enterprise zones during the period beginning with the first day of the 36-month period described in subparagraph (B).

"(ii) MINIMUM DESIGNATION IN RURAL AREAS. - Of the areas designated under clause (i), at least one-third must be areas —

"(I) which are within a local government jurisdiction or jurisdictions with a population of less than 50,000 (as determined under the most recent census data available) and which are determined by the Secretary of Housing and Urban Development, after consultation with the Secretary of Commerce, to be rural areas; or

"(II) which are outside of a metropolitan statistical area (within the meaning of section 103A(1)(4)(B)).

"(D) PROCEDURAL RULES. — The Secretary of Housing and Urban Development shall not make any designation under paragraph (1) unless —

"(i) the local government and the State in which the nominated area is located have the authority —

"(I) to nominate such area for designation as an enterprise zone,

"(II) to make the State and local commitments under subsection (d), and

"(III) to provide assurances satisfactory to the Secretary of Housing and Urban Development that such commitments will be fulfilled,

"(ii) a nomination therefor is submitted in such a manner and in such form, and contains such information, as the Secretary of Housing and Urban Development shall by regulation prescribe,

"(iii) the Secretary of Housing and Urban Development determines that any information furnished is reasonably accurate, and

"(iv) the State and local governments certify that no portion of the area nominated is already included in an enterprise zone or in an area otherwise nominated to be an enterprise zone.

"(3) NOMINATION PROCESS FOR INDIAN RESERVATIONS. — In the case of a nominated area on an Indian reservation, the reservation governing body (as determined by the Secretary of the Interior) shall be deemed to be both the State and local governments with respect to such area.

"(b) PERIOD FOR WHICH DESIGNATION IS IN EFFECT. —

"(1) IN GENERAL. — Any designation of an area as an enterprise zone shall remain in effect during the period beginning on the date of the designation and ending on the earliest of —

"(A) December 31 of the 24th calendar year following the calendar

year in which such date occurs,

"(B)the termination date designated by the State and local governments as provided for in their nomination pursuant to subsection (a)(2)(D)(ii), or

"(C) the date the Secretary of Housing and Urban Development revokes such designation under paragraph (2).

"(2) REVOCATION OF DESIGNATION — The Secretary of Housing and Urban Development, after consulation with the officials described in subsection (a)(1)(B), may revoke the designation of an area if the Secretary of Housing and Urban Development determines that the local government or the State in which it is located is not complying substantially with the State and local commitments pursuant to subsection (d).

"(c) AREA AND ELIGIBILITY REQUIREMENTS. —

"(1) IN GENERAL. — The Secretary of Housing and Urban Development may make a designation of any nominated area under subsection (a)(1) only if it meets the requirements of paragraphs (2) and (3).

"(2) AREA REQUIREMENTS. — A nominated area meets the requirements of this paragraph if —

"(A) the area is within the jurisdiction of the local government,

"(B) the boundary of the area is continuous, and

"(C) the area —

(i) has a population, as determined by the most recent census data available, of at least —

"(I) 4,000 if any portion of such area (other than a rural area described in subsection (b)(2)(C)(ii)(I)) is located within a metropolitan statistical area (within the meaning of section 103A (1)(4)(B)) with a population of 50,000 or greater, or

"(II) 1,000 in any other case, or

"(ii) is entirely within an Indian reservation (as determined by the Secretary of the Interior).

"(3) ELIGIBILITY REQUIREMENTS. — For purposes of paragraph (1), a nominated area meets the requirements of this paragraph if the State and local governments in which it is located certifies and the Secretary of Housing and Urban Development, after such review of supporting data as he deems appropriate, accepts such certification, that —

"(A) the area is one of pervasive poverty, unemployment, and general

distress,

"(B) the area is located wholly within the jurisdiction of a local government which is eligible for Federal assistance under section 119 of the Housing and Community Development Act of 1974, as in effect on the date of the enactment of this section, and

"(C) one of the following criteria is met —

"(i) the unemployment rate, as determined by the appropriate available data, was at least 1 1/2 times the national unemployment rate for that period, or

"(ii) the poverty rate (as determined by the most recent census data available) for each populous census tract, (or where not tracted, the equivalent county division as defined by the Bureau of the Census for the purpose of defining poverty areas) within the area was at least 20 percent for the period to which such data relates, or

"(iii) at least 70 percent of the households living in the area have incomes below 80 percent of the median income of households of the local government (determined in the same manner as under section 119(b)(2) of the Housing and Community Development Act of 1974), or

"(iv) the population of the area decreased by 20 percent or more between 1970 and 1980 (as determined from the most census recent available.)

"(d) REQUIRED STATE AND LOCAL COMMITMENTS. —

"(1) IN GENERAL. — No nominated area shall be designated as an enterprise zone unless the local government and the State in which it is located agree in writing that, during any period during which the area is an enterprise zone, such governments will follow a specified course of action designed to reduce the various burdens borne by employers or employees in such area.

"(2) COURSE OF ACTION. — The course of action under paragraph (1) may be implemented by both such governments and private nongovernmental entities, may be funded from proceeds of any Federal program, and may include, but is not limited to —

"(A) a reduction of tax rates or fees applying within the enterprise zone,

"(B) an increase in the level or efficiency of local services within the enterprise zone, e.g., crime prevention (particularly through experimentation

with providing such services by nongovernmental entities),

"(C) actions to reduce, remove, simplify, or streamline governmental requirements applying within the enterprise zone, and

"(D) involvement in the program by private entities, organizations, neighborhood associations, and community groups, particularly those within the nominated area, including a commitment from such private entities to provide jobs and job training for, and technical, financial or other assistance to, employers, employees, and residents of the nominated area.

"(e) PRIORITY OF DESIGNATION. — In choosing nominated areas for designation, the Secretary of Housing and Urban Development shall give special preference to the areas with respect to which the strongest and highest quality contributions described in subsection (d)(2) have been promised as part of the course of action, taking into consideration the fiscal ability of the nominating State and local governments to provide tax relief. The Secretary shall also give preference to —

"(1) the nominated areas with respect to which the strongest and highest quality contributions other than those described in subsection (d)(2) have been promised as part of the course of action.

"(2) the nominated areas with respect to which the nominating State and local governments have provided the most effective and enforceable guarantees that the proposed course of action under subsection (d) will actually be carried out out during the period of the enterprise zone designation,

"(3) the nominated areas with high levels of poverty, unemployment, and general distress, particularly the areas —

"(A) which are near areas with concentrations of disadvantaged workers or long-term unemployed individuals, and

"(B) with respect to which there is a strong likelihood that residents of the area described in subparagraph (A) will receive jobs if the area is designated as an enterprise zone,

"(4) the nominated areas the size and location of which —

"(A) will primarily stimulate new economic activity, and

"(B) minimize unnecessary tax losses to the Federal Government,

"(5) the nominated areas with respect to which private entities have made the most substantial commitments in additional resources and contributions, including the creation of new or expanded business activities, and

"(6) the nominated areas which best exhibit such other factors determined by the Secretary of Housing and Urban Development as are —

"(A) consistent with the intent of the enterprise zone program, and

"(B) important to minimizing the unnecessary loss of tax revenues to the Federal Government.

"(f) DEFINITIONS. — For the purposes of this title —

"(1) GOVERNMENTS. — If more than one government seeks to nominate an area as an enterprise zone, any reference to, or requirement of, this section shall apply to all such governments.

"(2) STATE. — The term 'State' shall also include Puerto Rico, the Virgin Islands, Guam, American Samoa, the Northern Mariana Islands, and any other possession of the United States.

"(3) LOCAL GOVERNMENT. — The term 'local government' means —

"(A) any county, city, town, township, parish, village, or other general purpose political subdivision of a State,

"(B) any combination of political subdivisions described in subparagraph (A) recognized by the Secretary of Housing and Urban Development, and

"(C) the District of Columbia."

(b) CONFORMING AMENDMENT. — The table of subchapters for chapter 80 is amended by adding at the end thereof the following new item:

"Subchapter C — Designation of Enterprise Zones".

SEC. 103. EVALUATION AND REPORTING REQUIREMENTS.

Not later than the close of the fourth calendar year after the year in which the Secretary of Housing and Urban Development first designates areas as enterprise zones, and at the close of each fourth calendar year thereafter, the Secretary of Housing and Urban Development shall prepare and submit to the Congress a report on the effects of such enterprise zones' designation in accomplishing the purposes of this Act.

SEC. 104. INTERACTION WITH OTHER FEDERAL PROGRAMS.

(a) TAX REDUCTIONS. — Any reduction of taxes under any required program of State and local commitment under section 7871(d) of the Internal Revenue Code of 1954 shall be disregarded in determining the eligibility of a State or local government for, or the amount or extent of, any assistance or benefits under any law of the United States.

(b) COORDINATION WITH RELOCATION ASSISTANCE. -- The designation of an enterprise zone under section 7871 of the Internal Revenue Code of 1954 shall not —

(1) constitute approval of a Federal or Federally assisted program or project (within the meaning of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (42 U.S.C. 4601)), or

(2) entitle any person displaced from real property located in such zone to any rights or any benefits under such Act.

(c) COORDINATION WITH ENVIRONMENTAL POLICY. — Designation of an enterprise zone under section 7871 shall not constitute a Federal action for purposes of applying the requirements of the National Environmental Policy Act (42 U.S.C. 4341) or other provisions of Federal law relating to the protection of the environment.

TITLE II — FEDERAL INCOME TAX INCENTIVES

Subtitle A — Credits for Employers and Employees

SEC. 201. CREDIT FOR ENTERPRISE ZONE EMPLOYERS.

(a) CREDIT FOR INCREASED ENTERPRISE ZONE EMPLOYMENT AND EMPLOYMENT OF DISADVANTAGED WORKERS. — Subpart A of part IV of subchapter A of chapter 1 (relating to credits allowable) is amended by inserting immediately before section 45 the following new section:

"SEC. 44H. CREDIT FOR ENTERPRISE ZONE EMPLOYMENT.

"(a) IN GENERAL. — There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of —

"(1) 10 percent of the qualified increased employment expenditures of the taxpayer for the taxable year, and

"(2) the economically disadvantaged credit amount of the taxpayer for such taxable year.

"(b) LIMITATIONS BASED ON AMOUNT OF TAX. —

"(1) IN GENERAL. — The credit allowed by subsection (a) for a taxable year shall not exceed the tax imposed by this chapter for such taxable year, reduced by the sum of the credits allowable under any section of this subpart having a lower number or letter designation than this section, other than the credits allowable by sections 31, 39, and 43. For purposes of the preceding sentence, the term 'tax imposed by this chapter' shall not include any tax treated as not imposed by this chapter under the last sentence of section 53 (a).

"(2) CARRYBACK AND CARRYOVER OF UNUSED CREDIT. —

"(A) ALLOWANCE OF CREDIT. — If the amount of the credit determined under this section for any taxable year exceeds the limitation provided by paragraph (1) for such taxable year (hereinafter in this paragraph referred to as the 'unused credit year'), such excess shall be —

"(i) an enterprise zone employment credit carryback to each of the 3 taxable years preceding the unused credit year, and

"(ii) an enterprise zone employment credit carryover to each of the 15 taxable years following the unused credit year,

and shall be added to the amount allowable as a credit by this section for such years. If any portion of such excess is a carryback to a taxable year beginning before January 1, 1984, this section shall be deemed to have been in effect for such taxable year for purposes of allowing such carryback as a credit under this section. The entire amount of the unused credit for an unused credit year shall be carried to the earliest of the 18 taxable years to which (by reason of clauses (i) and (ii)) such credit may be carried, and then to each of the other 17 taxable years to the extent that, because of the limitation contained in subparagraph (B), such unused credit may not be added for a prior taxable year to which such unused credit may be carried.

"(B) LIMITATION. — The amount of the unused credit which may be added under subparagraph (A) for any preceding or succeeding taxable year shall not exceed the amount by which the limitation provided by paragraph (1) for such taxable year exceeds the sum of —

"(i) the credit allowable under this section for such taxable year, and

"(ii) the amounts which, by reason of this paragraph, are added to the amount allowable for such taxable year and which are attributable to taxable years preceding the unused credit year.

"(C) SPECIAL RULE IF PERIOD OF ZONE EXTENDS MORE THAN 15 YEARS. — If the number of taxable years during the period —

"(i) beginning with the taxable year after the unused credit year, and

"(ii) ending with the taxable year in which the designation of the enterprise zone to which the credit under subsection (a) relates expires under section 7871,

exceeds 15, then subparagraph (A) shall be applied by substituting such number for '15', such number plus 3 for '18', and such number plus 2 for '17'.

"(c) QUALIFIED INCREASED EMPLOYMENT EXPENDITURES DEFINED. — For purposes of this section —

"(1) IN GENERAL. — The term 'qualified increased employment expenditures' means the excess of —

"(A) the qualified wages paid or incurred by the employer during the taxable year to qualified employees with respect to all enterprise zones,

over

"(B) the base period wages of the employer with respect to all such zones.

"(2) LIMITATIONS AS TO QUALIFIED WAGES TAKEN INTO ACCOUNT. —

"(A) DOLLAR AMOUNT. — The amount of any qualified wages taken into account under paragraph (1) for any taxable year with respect to any qualified employee may not exceed 2.5 times the dollar limitation in effect under section 3306 (b)(1) for the calendar year with or within which such taxable year ends.

"(B) APPLICATION WITH ECONOMICALLY DISADVANTAGED CREDIT AMOUNT. — Qualified wages shall not be taken into account under paragraph (1) if such wages are taken into account in determining the economically disadvantaged credit amount under subsection (c).

"(3) BASE PERIOD WAGES. —

"(A) IN GENERAL. — The term 'base period wages' means, with respect to any enterprise zone, the amount of wages paid to employees during the 12-month period preceding the date on which the enterprise zone was designated as such under section 7871, or the date on which the enterprise zone is designated under State law, enacted after January 1, 1981, if earier, which would have been qualified wages paid to qualified employees if such designation had been in effect for such period.

"(B) RULES OF SPECIAL APPLICATION. — For purposes of subparagraph (A) —

"(i) subsection (f)(1) shall be applied by substituting '12-month period' for 'taxable year' each place it appears, and

"(ii) the dollar limitation taken into account under paragraph (2) in computing qualified wages shall be the amount in effect for taxable year for which the amount of the credit under subsection (a) is being computed.

"(d) ECONOMICALLY DISADVANTAGED CREDIT AMOUNT. — For purposes of this section —

"(1) IN GENERAL. — The term 'economically disadvantaged credit amount' means the sum of the applicable percentage of qualified wages paid to each qualified economically disadvantaged individual.

"(2) APPLICABLE PERCENTAGE. — For purposes of paragraph (1), the term 'applicable percentage' means, with respect to any qualified economically

disadvantaged individual, the percentage determined in accordance with the following table:

"If the qualified wages are paid for services performed:	The applicable percentage is:
Within 36 months of starting date.....	50
More than 36 months but less than 49 months after such date....	40
More than 48 months but less than 61 months after such date....	30
More than 60 months but less than 73 months after such date....	20
More than 72 months but less than 85 months after such date....	10
More than 84 months after such date.....	0

"(3) STARTING DATE; BREAKS IN SERVICE — For purposes of this subsection —

"(A) STARTING DATE. — The term 'starting date' means the day which the qualified economically disadvantaged individual begins work for the employer within an enterprise zone.

"(B) BREAKS IN SERVICE. — The periods described in the table under paragraph (2) (other than the first such period) shall be extended by any period of time during which the individual is unemployed, and by any period of time during which the individual is employed by a taxpayer in an enterprise zone designated under State law enacted after January 1, 1981, if such designation occurs prior to the designation of the enterprise zone under section 7871.

"(e) QUALIFIED WAGES DEFINED. — For purposes of this section —

"(1) IN GENERAL. — Except as otherwise provided in this subsection, the term 'qualified wages' has the meaning given to the term 'wages' by subsection (b) of section 3306 (determined without regard to any dollar limitation contained in such section).

"(2) REDUCTION FOR CERTAIN FEDERALLY FUNDED PAYMENTS. — For purposes of this section the wages paid or incurred by an employer for any period shall not include the amount of any Federally funded payments the employer receives or is entitled to receive for on-the-job training of such individual for such period.

"(3) SPECIAL RULES FOR AGRICULTURAL AND RAILWAY LABOR. — Under regulations prescribed by the Secretary, rules similar to the rules of section

51(h) shall apply with respect to services described in subparagraphs (A) and (B) of section 51(h)(1).

"(f) QUALIFIED EMPLOYEE DEFINED. —

"(1) IN GENERAL. — For purposes of this section, the term 'qualified employee' means an individual —

"(A) at least 90 percent of whose services for the employer during the taxable year are directly related to the conduct of the employer's trade or business located in an enterprise zone, and

"(B) who performs at least 50 percent of his services for the employer during the taxable year in an enterprise zone.

"(2) EXCEPTION FOR INDIVIDUALS WITH RESPECT TO WHOM CREDIT IS ALLOWED UNDER SECTION 44B. — The term 'qualified employee' shall not include an individual with respect to whom any credit is allowed the employer for the taxable year under section 44B (relating to credit for employment of certain new employees).

"(g) QUALIFIED ECONOMICALLY DISADVANTAGED INDIVIDUAL. —

"(1) For purposes of this section, the term 'qualified economically disadvantaged individual' means an individual —

"(A) who is a qualified employee,

"(B) who is hired by the employer during the period a designation under section 7871 is in effect for the area in which the services which qualify such individual as a qualified employee are performed, and

"(C) who is certified as —

"(i) an economically disadvantaged individual,

"(ii) an eligible work incentive employee (within the meaning of section 51 (d)(9)), or

"(iii) a general assistance recipient (within the meaning of section 51 (d)(6)).

"(2) ECONOMICALLY DISADVANTAGED INDIVIDUAL. — For purposes of paragraph (1) —

"(A) IN GENERAL. — The term 'economically disadvantaged individual' means any individual who is certified by the designated local agency as being a member of a family that had a combined family income (including the cash value of food stamps) during the 6 months preceding the month in which such determination occurs that on an annual basis, was equal to or less than the sum of —

"(i) the highest amount which would ordinarily be paid to a family of the same size without any income or resources in the form of payments for aid to families with dependent children under the State plan approved under part A of title IV of the Social Security Act for the State in which such individual resides, plus,

"(ii) the highest cash value of the food stamps to which a family of the same size without any income or resources would be paid aid to families with dependent children under such State plan in the amount determined under clause (i).

Any such determination shall be valid for the 45-day period beginning on the date such determination is made.

"(B) SPECIAL RULE FOR FAMILIES WITH ONLY 1 INDIVIDUAL. — For purposes of clause (i) of subparagraph (A), in the case of a family consisting of only one individual, the 'highest amount which would ordinarily be paid' to such family under the State's plan approved under part A of title IV of the Social Security Act shall be an amount determined by the designated local agency on the basis of a reasonable relationship to the amounts payable under such plan to families consisting of two or more persons.

"(3) CERTIFICATION. — Certfication of an individual as an individual described in paragraph (1)(C) shall be made in the same manner as certification under section 51.

"(h)" SPECIAL RULES. — For purposes of this section —

"(1) APPLICATION TO CERTAIN ENTITIES, ETC. — Under regulations prescribed by the Secretary, rules similar to the rules of section 52 (other than subsection (b) thereof) and section 44F(f)(3) shall apply.

"(2) PERIODS OF LESS THAN A YEAR. — If designation of an area as an enterprise zone under section 7871 occurs, expires, or is revoked on a date other than the first or last day of the taxable year of the taxpayer, or in the case of a short taxable year —

"(A) the limitation specified in subsection (c)(2)(A), and the base period wages determined under subsection (c)(3), shall be adjusted on a pro rata basis (based upon the number of days), and

"(B) the reduction specified in subsection (e)(2) and the 90 percent and 50 percent tests set forth in subsection (f)(1) shall be determined by reference to the portion of the taxable year during which the designation of

the area as an enterprise zone is in effect.

"(i) PHASEOUT OF CREDIT. — In determining the amount of the credit for a taxable year under subsection (a) with respect to qualified wages paid or incurred for services performed in an enterprise zone —

"(1) the following percentages shall be substituted for '10 percent' in subsection (1)(1):

"(A) 7.5 percent in the earlier of —

"(i) the taxable year which includes the date which is 21 years after the date on which such enterprise zone was designated under section 7871, or

"(ii) the taxable year which includes the date which is 4 years before the date (if any) on which such enterprise zone ceases to be a zone under section 7871(b)(1)(B),

"(B) 5 percent in the next succeeding taxable year,

"(C) 2.5 percent in the second next succeeding taxable year, and

"(D) zero thereafter, and

"(2) the amount determined under subsection (a)(2) shall be reduced by —

"(A) 25 percent in the case of the taxable year described in paragraph (1)(A),

"(B) 50 percent in the next succeeding taxable year,

"(C) 75 percent in the second next succeeding taxable year, and

"(D) 100 percent thereafter.

"(j) EARLY TERMINATION OF EMPLOYMENT BY EMPLOYER IN CASE OF QUALIFIED ECONOMICALY DISADVANTAGED INDIVIDUALS, ETC. —

"(1) GENERAL RULE. — Under the regulations prescribed by the Secretary, if the employment of any qualified economically disadvantaged individual with respect to whom qualified wages are taken into account under subsection (a) is terminated by the taxpayer at any time during the 270-day period beginning on the date such individual begins work for the employer, the tax under this chapter for the taxable year in which such employment is terminated shall be increased by an amount (determined under such regulations) equal to the credit allowed under subsection (a) for such taxable year and all prior taxable years attributable to qualified wages paid or incurred with respect to such employee.

"(2) SUBSECTION NOT TO APPLY IN CERTAIN CASES. —

"(A) IN GENERAL. — Paragraph (1) shall not apply to —

"(i) a termination of employment of an employee who

voluntarily leaves the employment of the employer,

"(ii) a termination of employment of an individual who, before, the close of the period referred to in paragraph (1), becomes disabled to perform the services of such employment, unless such disability is removed before the close of such period and the employer fails to offer reemployment to such individual,

"(iii) a termination of employment of an individual, if it is determined under the applicable State unemployment compensation law that the termination was due to the misconduct of such individual, or

"(iv) a termination of employment of an individual due to a substantial reduction in the trade or business operations of the employer.

"(B) CHANGE IN FORM OF BUSINESS, ETC. — For purposes of paragraph (1), the employment relationship between the employer and an employee shall not be treated as terminated —

"(i) by a transaction to which section 381(a) applies, if the employee continues to be employed by the acquiring corporation, or

"(ii) by reason of a mere change in the form of conducting the trade or business of the taxpayer, if the employee continues to be employed in such trade or business and the employer retains a substantial interest in such trade or business.

"(3) SPECIAL RULE. — Any increase in tax under paragraph (1) shall not be treated as tax imposed by this chapter for purposes of determining the amount of any credit allowable under subpart A."

(b) NO DEDUCTION ALLOWED. —

(1) IN GENERAL. — Section 280C (relating to disallowance of deductions for that portion of wages for which credit is claimed under section 40 or 44B) is amended —

(A) by adding at the end thereof the following new subsection:

"(c) RULE FOR SECTION 44H CREDITS. — No deduction shall be allowed for that portion of the wages or salaries paid or incurred for the taxable year which is equal to equal to the amount of the credit allowable under section 44H (relating to the employement credit for enterprise zone businesses). This subsection shall be applied under a rule similar to the rule under the last sentence of subsection (b)."; and

(B) by striking out "**OR 44B**" in the heading and inserting in lieu

thereof ", 44B, OR 44H".

(2) CONFORMING AMENDMENT. — The table of sections for part IX of subchapter B of chapter 1 is amended by striking out "or 44B" in the item relating to section 280C and inserting in lieu thereof ", 44B, or 44H".

(c) TECHNICAL AMENDMENTS RELATED TO CARRYOVER AND CARRYBACK OF CREDITS. —

(1) CARRYOVER OF CREDIT. —

(A) Subparagraph (B) of section 55 (c)(3) (relating to carryover and carryback of certain credits) is amended —

(i) by striking out "or 44F" in clause (i) and inserting in lieu thereof "44F, or 44H", and

(ii) by inserting "44H (b)(1)," after "44F (g)(1)," in clause (ii).

(B) Subsection (c) of section 381 (relating to items of the distributor or transferor corporation) is amended by adding at the end thereof the following new paragraph:

"(30) CREDIT UNDER SECTION 44H. — The acquiring corporation shall take into account (to the extent proper to carry out the purposes of this section and section 44H, and under such regulations as may be prescribed by the Secretary) the items required to be taken into account for purposes of section 44H in respect to the distributor or transferor corporation."

(C) Section 383 (relating to special limitations on unused credits and capital losses), as in effect for taxable years to which the amendments made by the Tax Reform Act of 1976 apply, is amended —

(i) by inserting "to any unused credit of the corporation under section 44H(b)(2)," after "44G(b)(2)," and

(ii) by inserting "**ENTERPRISE ZONE EMPLOYMENT CREDITS,**" after "**EMPLOYEE STOCK OWNERSHIP CREDITS,**" in the section heading.

(D) Section 383 (as in effect on the day before the amendments made by the Tax Reform Act of 1976) is amended —

(i) by inserting "to any unused credit of the corporation which could otherwise be carried forward under section 44H(b) (2)," after "44G(b)(2)," and

(ii) by inserting "ENTERPRISE ZONE EMPLOYMENT CREDITS," after "EMPLOYEE STOCK OWNERSHIP CREDITS," in the section heading.

(E) The table of sections for part V of subchapter C of chapter 1 is amended by inserting "enterprise zone employment credits," after "employee stock ownership credits," in the item relating to Section 383.

(2) CARRYBACK OF CREDIT. —

(A) Subparagraph (C) of section 6511(d)(4) (defining credit carryback) is amended by striking out "and employee stock ownership credit carryback" and inserting in lieu thereof "employee stock ownership credit carryback, and enterprise zone employment credit carryback."

(B) Section 6411 (relating to quick refunds in respect to tentative carryback adjustments) is amended —

(i) by striking out "or unused employee stock ownership credit" each place it appears and inserting in lieu thereof "unused employee stock ownership credit, or unused enterprise zone employment credit carryback;"

(ii) by inserting ", by an enterprise zone employment credit carryback provided by section 44H(b)(2)," after "by an employee stock ownership credit carryback provided by section 44G(b)(2)" in the first sentence of subsection (a);

(iii) by striking out "or employee stock ownership credit carryback from" each place it appears and inserting in lieu thereof "employee stock ownership credit carryback, or enterprise zone employment credit carryback from;" and

(iv) by striking out "research and experimental credit carryback)" in the second sentence of subsection (a) and inserting in lieu thereof "reserach and experimental credit carryback, or in the case of an enterprise zone employment credit carryback, to an investment credit carryback, a new employee credit carryback, or an employee stock ownership credit carryback)."

(d) OTHER TECHNICAL AND CLERICAL AMENDMENTS —

(1) Subsection (b) of section 6096 (relating to designation of income tax payments to Presidential Election Campaign Fund) is amended by striking out "and 44G" and inserting in lieu thereof "44G and 44H".

(2) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting before the item relating to section 45 the following new item:

"Sec. 44H. Credit for enterprise zone employment."

(e) EFFECTIVE DATE. — The amendments made by this section shall apply to taxable years beginning after December 31, 1983.

SEC. 202. CREDIT FOR ENTERPRISE ZONE EMPLOYEES.

(a) IN GENERAL. — Subpart A of part IV of subchapter A of chapter 1 (relating to credits allowable), as amended by section 201, is amended by inserting immediately before section 45 the following new section:

"SEC. 44J. CREDIT FOR ENTERPRISE ZONE EMPLOYEES.

"(a) IN GENERAL. — In the case of a qualified employee, there is allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 5 percent of the qualfied wages for the taxable year.

"(b) DEFINITIONS. — For purposes of this section —

"(1) QUALIFIED EMPLOYEE. — The term 'qualified employee' means an individual —

"(A) who is described in section 44H(d)(1), and

"(B) who is not the employee of the Federal Government or any State or subdivision of a State.

"(2) QUALIFIED WAGES. —

"(A) IN GENERAL. — The term 'qualified wages' has the meaning given to 'wages' under subsection (b) of section 3306, attributable to services performed for an employer with respect to whom the employee is a qualified employee, in an amount which does not exceed 1 1/2 times the dollar limitation specified in such sebsection.

"(B) EXCEPTION. — The term 'qualified wages' does not include any compensation received from the Federal Government or any State or subdivision of a State.

"(3) ENTERPRISE ZONE. — The term 'enterprise zone' means any area with respect to which a designation as an enterprise zone is in effect under section 7871.

"(c) PHASEOUT OF CREDIT. — In determining the amount of the credit for the taxable year under subsection (a) with respect to qualified wages paid to qualified employees for services performed in an enterprise zone, the following percentages shall be substituted for '5 percent' in subsection (a):

"(1) 3 3/4 percent in the taxable year in which the date which is —

"(A) 21 years after the date on which such enterprise zone was designated under section 7871 occurs, or

"(B) if earlier, the date 4 years before the date the zone designation is

to expire;

"(2) 2 1/2 percent in the next succeeding taxable year;

"(3) 1 1/4 percent in the second next suceeding taxable year; and

"(4) zero thereafter.

"(d) APPLICATION WITH OTHER CREDITS. — The credit allowed by subsection (a) for a taxable year shall not exceed the tax imposed by this chapter for such taxable year, reduced by the sum of the credits allowable under a section of ths subpart having a lower number or letter designation than this section, other than the credits allowable by section 31, 39, and 43. For purposes of the preceding sentence, the term 'tax imposed by this chapter' shall not include any tax treated as not imposed by this chapter under the last sentence of section 53(a)."

(b) CONFORMING AMENDMENT. — The table of section for subpart A if part IV of subchaper A of chapter 1 is amended by inserting immediately before the item relating to section 45 of the following new item:

"SEC. 44I. CREDIT FOR ENTERPRISE ZONE EMPLOYEES."

(c) EFFECTIVE DATE. — The amendments made by this section shall apply to taxable years after December 31, 1983.

Subtitle B — Credits for Investment in Tangible Property in Enterprise Zones

SEC. 211. INVESTMENT TAX CREDIT FOR ENTERPRISE ZONE PROPERTY.

(a) SECTION 38 PROPERTY. — Paragraph (1) of section 48 (a) (defining section 38 property) is amended by striking out "or" at the end of subparagraph (F), by striking out the period at the end of subparagraph (G) and inserting in lieu thereof "; or", and by adding after subparagraph (G) the following new subparagraph:

"(H) enterprise zone property (within the meaning of subsection (r)) which is not otherwise section 38 property."

(b) AMOUNT OF CREDIT. —

(1) IN GENERAL. — Subparagraph (A) of section 46 (a)(2) (relating to amount of investment tax credit) is amended by striking out "and" at the end of clause (iii), by striking out the period at the end of clause (iv) and inserting in lieu thereof ", and", and by adding at the end thereof the following new clause:

"(v) in the case of qualified enterprise zone property, the enterprise zone percentage."

(2) ENTERPRISE ZONE PERCENTAGE DEFINED. — Paragraph (2) of section 46(a) is amended by adding at the end thereof the following new subparagraph:

"(G) ENTERPRISE ZONE PERCENTAGE. —

"(i) IN GENERAL. —

"For purposes of this paragraph —

"In the case of qualified enterprise zone expenditures with respect to:	The enterprise zone percentage is:
Zone personal property (within the meaning of section 48(r)(2)).	5
New zone construction property (within the meaning of section 48(r)(3)).	10

"(ii) PHASEOUT OF CREDIT AS ENTERPRISE ZONE ENDS. — Clause (i) shall be applied by substituting the following percentages for 5 percent and 10 percent, respectively:

"(I) For the taxable year described in section 44H(i)(1)(A), 3.75 and 7.5.

"(II) For the next succeeding taxable year, 2.5 and 5.

"(III) For the second next succeeding taxable year, 1.25 and 2.5.

"(IV) For any subsequent taxable year, zero."

(3) ORDERING RULES. — That portion of paragraph (7) of section 46(a) (relating to special rules in the case of energy property) which precedes subparagraph (B) is amended to read as follows:

"(7) SPECIAL RULES IN THE CASE OF ENERGY PROPERTY OR ENTERPRISE ZONE PROPERTY. — Under regulations prescribed by the Secretary —

"(A) IN GENERAL. — This subsection and subsection (b) shall be applied separately —

"(i) first with respect to so much of the credit allowed by section 38 as is not attributable to the energy percentage or the enterprise zone percentage,

"(ii) second with respect to so much of the credit allowed by section 38 as is attributable to the application of the energy percentage to energy property, and

"(iii) third with respect to so much of the credit allowed by section 38 as is attributable to the application of the

enterprise zone percentage to enterprise zone property."

(4) CONFORMING AMENDMENT. — Section 48(o) (defining certain credits) is amended by adding at the end thereof the following new paragraphs:

"(9) ENTERPRISE ZONE CREDIT. — The term 'enterprise zone credit' means that portion of the credit allowable by section 38 which is attributable to the enterprise zone percentage."

(c) DEFINITIONS AND TRANSITIONAL RULES. — Section 48 (relating to definitions and special rules) is amended by redesignating subsection (r) as subsection (s) and by inserting after subsection (q) the following new subsection:

"(r) ENTERPRISE ZONE PROPERTY. — .

"(1) The term 'enterprise zone property' means property —

"(A) which is —

"(i) zone personal property, or

(ii) new zone construction property,

"(B) not acquired (directly or indirectly) by the taxpayer from a person who is related to the taxpayer (within the meaning of section 168(e)(4)(D)), and

"(C) acquired and first placed in service by the taxpayer in an enterprise zone during the period the designation as a zone is in effect under section 7871.

"(2) ZONE PERSONAL PROPERTY DEFINED. — The term 'zone personal property' means property which is —

"(A) 3-year property;

"(B) 5-year property;

"(C) 10-year property; and

"(D) 15-year public utility property,

which is used by the taxpayer predominantly in the active conduct of a trade or business within an enterprise zone. Property shall not be treated as 'zone personsl property' if it is used or located outside the enterprise zone on any regular basis.

"(3) NEW ZONE CONSTRUCTION PROPERTY DEFINED. — The term 'new zone construction property' means 15-year real property which is —

"(A) located in an enterprise zone,

"(B) used by the taxpayer predominantly in the active conduct of a trade or business within an enterprise zone, and

"(C) either —

"(i) the construction, reconstruction, rehabilitation, renovation,

expansion, or erection of which is completed by the taxpayer during the period the designation as a zone is in effect under section 7871, or

"(ii) acquired during such period if the original use of such property commences with the taxpayer and commences during such period.

In applying section 46(c)(1)(A) in the case of property described in clause (i), there shall be taken into account only that portion of the basis which is properly attributable to construction or erection during such period.

"(4) REAL ESTATE RENTAL. -- For purposes of this section, ownership of residential, commercial, or industrial real property within an enterprise zone for rental shall be treated as the active conduct of a trade or business in an enterprise zone.

"(5) DEFINITIONS. — For purposes of this subsection, the terms '3-year property,' '5-year property,' '10-year property,' '15-year real property,' and '15-year public utility property' have the meanings given such terms by section 168(c)(2)."

(d) LODGING TO QUALIFY. — Paragraph (3) of section 48(a) (relating to property used for lodging) is amended —

(1) by striking out "and" at the end of subparagraph (C),

(2) by striking out the period at the end of subparagraph (D) and inserting in lieu thereof ", and," and

(3) by adding at the end thereof the following new subparagraph:

"(E) new zone construction property."

(e) RECAPTURE. — Subsection (a) of section 47 (relating to certain dispositions, etc., of section 38 property) is amended by adding at the end thereof the following new paragraph:

"(9) SPECIAL RULES FOR ENTERPRISE ZONE PROPERTY. —

"(A) IN GENERAL. — If, during any taxable year, property with respect to which the taxpayer claimed an enterprise zone credit-

"(i) is disposed of, or

"(ii) in the case of zone personal property —

"(I) otherwise ceases to be section 38 property with respect to the taxpayer, or

"(II) is removed from the enterprise zone, converted, or otherwise ceases to be enterprise zone property (other than by the expiration or revocation of the designation as an enterprise

zone),

the tax under this chapter for such taxable year shall be increased by the amount described in subparagraph (B).

"(B) AMOUNT OF INCREASE. — The increase in tax under subparagraph (A) shall equal the aggregate decrease in the credits allowed under section 38 by reason of section 46(a)(2)(A)(v) for all prior taxable years which would have resulted solely from reducing the expenditures taken into account with respect to the property by by an amount which bears the same ratio to such expenditures as the number of taxable years that the property was held by the taxpayer bears to the applicable recovery period for earnings and profits under section 312(k)."

(f) BASIS ADJUSTMENT TO REFLECT INVESTMENT CREDIT. —

(1) IN GENERAL. — Paragraph (3) of section 48(q) (relating to basis adjustment to section 38 property) is amended to read as follows:

"(3) SPECIAL RULE FOR QUALIFIED REHABILITATION AND ENTERPRISE ZONE EXPENDITURES. — In the case of any credit determined under section 46(a)(2) for —

"(A) any qualified rehabilitation expenditure in connection with a qualified rehabilitated building other than a certified historic structure, or

"(B) any expenditure in connection with new zone construction property (within the meaning of section 48(r)(3)),

paragraphs (1) and (2) shall be applied without regard to the phrase '50 percent of'."

(2)CONFORMING AMENDMENT. — The heading for subsection (c) of section 196 (relating to deductions for certain unused investment credits) is amended by striking out "rehabilitated buildings" and inserting in lieu thereof "rehabilitation and eneterprise zone expenditures."

(g) INVESTMENT CREDIT CARRYOVER PERIOD EXTENDED. — Paragraph (1) of section 46(b) (relating to carryover and carryback of unused credits) is amended by adding at the end thereof the following new sentence: "If the number of taxable years during the period beginning with the taxable years following the unused credit year and ending with the taxable year in which the designation of the enterprise zone to which the unused credit relates expires under section 7871 exceeds 15, then the preceding sentence shall be applied by substituting such number for '15,' such number plus 3 for '18,' and such number plus 2 for '17'."

(h) EFFECTIVE DATE. — The amendments made by this section shall apply to periods after December 31, 1983, under rules similar to the rules of section 48(m) of the

Internal Revenue Code of 1954.

Subtitle C — Reduction in Capital Gain Tax Rates

SEC. 221. CORPORATIONS.

(a) GENERAL RULE. — Subsection (a) of section 1201 (relating to alternative tax for corporations) is amended by striking out paragraph (2) and inserting in lieu thereof the following:

"(2) a tax of 28 percent of the excess (if any) of —

"(A) the net capital gain for th taxable year, over

"(B) the qualified enterprise zone capital gain."

(b) DEFINITION OF QUALIFIED ENTERPRISE ZONE CAPITAL GAIN. — Section 1201 is amended by redesignating subsections (b) and (c) as subsections (c) and (d) and by inserting after subsection (a) the following new subsection:

"(b) QUALIFIED ENTERPRISE ZONE CAPITAL GAIN. — For purposes of this section —

"(1) IN GENERAL. — The term 'qualified enterprise zone capital gain' means gain which is —

"(A) described in section 1222(3),

"(B) attributable to the sale or exchange of qualified property, and

"(C) properly allocable only to periods during which the property is qualified property.

"(2) LIMITATIONS. — The term 'qualified enterprise zone capital gain' does not include any gain attributable to the sale or exchange of an interest in a qualified business to the extent attributable to —

"(A) any property contributed to the qualified business within the previous 12 months,

"(B) any interest in any business which is not a qualified business, or

"(C) any other intangible property to the extent not properly attributable to the active conduct of a trade or business within an enterprise zone.

"(3) DEFINITIONS. —

"(A) The term 'qualified property' means —

"(i) any tangible personal property used by the taxpayer predominantly in an enterprise zone in the active conduct of a trade or business within such enterprise zone,

"(ii) any real property located in an enterprise zone used by the taxpayer predominantly in the active conduct of a trade or business

within such enterprise zone, and

"(iii) any interest in a corporation, partnership, or other entity if, for the three most recent taxable years of such entity ending before the date of disposition of such interest, such entity was a qualified business.

"(B) QUALIFIED BUSINESS. — The term 'qualified business' means any person —

"(i) which is actively engaged in the conduct of a trade or business within an enterprise zone during the period described in subparagraph (A)(iii),

"(ii) with respect to which at least 80 percent of such person's gross receipts for the taxable year are attributable to the active conduct of a trade or business within an enterprise zone, and

"(iii) with substantially all of its tangible assets located within an enterprise zone.

"(C) REAL ESTATE RENTAL. — For purposes of this section, ownership of residential, commercial, or industrial real property withn an enterprise zone for rental shall be treated as the active conduct of a trade or business in an enterprise zone.

"(D) PROPERTY REMAINS QUALIFIED AFTER ZONE DESIGNATION CEASES TO APPLY. —

"(i) IN GENERAL. — The treatment of property as qualified property under subparagraph (A) shall terminate when the designation of the enterprise zone in which the property is located or used expires or is revoked.

"(ii) EXCEPTIONS. — Clause (i) shall not apply after the first sale or exchange of property occurring after the designation expires or is revoked,"

SEC. 222. TAXPAYERS OTHER THAN CORPORATIONS.

Subsection (a) of section 1202 (relating to deduction for capital gains) is amended to read as follows:

"(a) DEDUCTION ALLOWED. —

"(1) IN GENERAL. — If for any taxable year a taxpayer other than a corporation has a net capital gain, there shall be allowed as a deduction from gross income an amount equal to the sum of —

"(A) 100 percent of the lesser of —

"(i) the net capital gain, or

"(ii) the qualified enterprise zone capital gain (as defined in section 1201(b)), plus

"(B) 60 percent of the excess (if any) of —

"(i) the net capital gain, over

"(ii) the amount of the net capital gain taken into account under subparagraph (A)."

SEC. 223. MINIMUM TAX.

Paragraph (9) of section 57(a) (relating to tax preference for capital gains) is amended by adding at the end thereof of the following new subparagraph:

"(E) For purposes of this paragraph, gain attributable to qualified enterprise zone capital gain (within the meaning of section 1201(b)) shall not be taken into account."

SEC. 224. EFFECTIVE DATE.

The amendments made by this subtitle shall apply to sales or exchanges after December 31, 1983.

Subtitle D — Rules Relating to Industrial Development Bonds

SEC. 231. INDUSTRIAL DEVELOPMENT BONDS.

(a) LIMITATION ON ACCELERATED COST RECOVERY DEDUCTION NOT TO APPLY TO ENTERPRISE ZONE PROPERTY. — Subparagraph (C) of section 168(f)(12) (relating to limitations on property financed with tax-exempt bonds) is amended —

(1) by striking out "or" at the end of clause (iii),

(2) by striking out the period at the end of clause (iv) and inserting in lieu thereof ", or",and

(3) by adding at the end thereof the following new clause:

"(v) as enterprise zone property (within the meaning of section 48(r))."

(b) TERMINATION OF SMALL ISSUE EXEMPTION NOT TO APPLY. — Subparagraph (N) of section 103(b)(6) (relating to termination of small issue exemption after December 31, 1986) is amended by adding at the end thereof the following new sentence: "This subparagraph shall not apply to any obligation which is part of an issue substantially all of the proceeds of which are used to finance facilities within an enterprise zone if such facilities are placed in service while the designation as such a zone is in effect under section 7871."

(c) EFFECTIVE DATE. — The amendments made by this section shall apply to

obligations issued after December 31, 1983, in taxable years ending after such date.

Subtitle E — Sense of the Congress with Respect to Tax Simplication

SEC. 241. TAX SIMPLIFICATION

It is the sense of the Congress that the Secretary of the Treasury should in every way possible simplify the administration and enforcement of any provision of the Internal Revenue Code of 1954 added to, or amended by, this Act.

TITLE III — Regulatory Flexibility

SEC. 301. DEFINITION OF SMALL ENTITIES IN ENTERPRISE ZONES FOR PURPOSES OF ANALYSIS OF REGULATORY FUNCTIONS

Section 601 of title 5, United States Code, is amended by —

(1) striking out "and" at the end of paragraph (5); and

(2) striking out paragraph (6) and inserting in lieu thereof the following:

"(6) the term 'small entity' means —

"(A) a small business, small organization, or small governmental jurisdiction within the meaning of paragraphs (3), (4), and (5) of this section, respectively; and

"(B) any qualified business; any governments which designated and approved an area which has been designated as an enterprise zone (within the meaning of section 7871 of the Internal Revenue Code of 1954) to the extent any rule pertains to the carrying out of projects, activities, or undertakings within such zone; and any not-for-profit enterprise carrying out a significant portion of its activities within such a zone; and

"(7) the term 'qualified business' means any person, corporation, or other entity —

"(A) which is engaged in the active conduct of a trade or business within an enterprise zone (within the meaning of section 7871 of the Internal Revenue Code of 1954); and

"(B) for whom at least 50 percent of its employees are qualified employees (within the meaning of section 44H(f) of such Code)."

SEC. 302. WAIVER OR MODIFICATION OF AGENCY RULES IN ENTERPRISE ZONES.

(a) Chapter 6 of Title 5, United States Code, is amended by redesignating sections 611 and 612 as sections 612 and 613, respectively, and inserting the following new section immediately after section 610:

"§611. Waiver or modification of agency rules in enterprise zones

"(a) Upon the written request of the governments which designated and approved an area which has been designated as an enterprise zone under section 7871 of the Internal Revenue Code of 1954, an agency is authorized, in order to further the job creation, community development, or economic revitalization objectives of the zone, to waive or modify all or part of any rule which it has authority to promulgate, as such rule pertains to the carrying out of projects, activities or undertakings within the zone.

"(b) Nothing in this section shall authorize an agency to waive or modify any rule adopted to carry out a statute or Executive order which prohibits, or the purpose of which is to protect persons against, discrimination on the basis of race, color, religion, sex, marital status, national origin, age, or handicap.

"(c) A request under subsection (a) shall specify the rule or rules to be waived or modified and the change proposed, and shall briefly describe why the change would promote the achievement of the job creation, community development, or economic revitalization objectives of the enterprise zone. If a request is made to an agency other than the Department of Housing and Urban Development, the requesting governments shall send a copy of the request to the Secretary of Housing and Urban Development at the time the request is made.

"(d) In considering a request, the agency shall weigh the extent to which the proposed change is likely to further job creation, community development, or economic revitalization within the enterprise zone against the effect the change is liekly to have on the underlying purposes of applicable statutes in the geographic area which would be affected by the change. The agency shall approve the request whenever it finds, in its discretion, that the public interest which the proposed change would serve in furthering such job creation, community development or economic revitalization outweighs the publis interest which continuation of the rule unchanged would serve in furthering such underlying purposes. The agency shall not approve any request to waive or modify a rule if that waiver or modification would —

"(1) directly violate a statutory requirement (including any requirement of the Fair Labor Standards Act of 1938 [52 Stat. 1060; 29 U.S.C. 201 et seq.)); or

"(2) be likely to present a significant risk to the public health, including environmental health or safety, such as a rule with respect to occupational safety or health, or environmental pollution.

"(e) If a request is disapproved, the agency shall inform the requesting governments in writing of the reasons therefor and shall, to the maximum extent possible, work with such governments to develop an alternative, consistent with the standards contained in subsection (d).

"(f) Agencies shall discharge their responsibilities under this section in an expeditious manner, and shall make a determination on requests not later than 90 days after their receipt.

"(g) A waiver or modification of a rule under subsection (a) shall not be considered to be a rule, rulemaking, or regulation under chapter 5 of this title. To facilitate reaching its decision on any requested waiver or modification, the agency may seek the views of interested parties and, if the views are to be sought, determine how they should be obtained and to what extent, if any, they should be taken into account in considering the request. The agency shall publish a notice in the Federal Register stating any waiver or modification of a rule under this section.

"(h) In the event that an agency proposes to amend a rule for which a waiver or modification under this section is in effect, the agency shall not change the waiver or modification to impose additional requirements unless it determines, consistent with standards contained in subsection (d), that such action is necessary.

"(i) No waiver or modification of a rule under this section shall remain in effect for a longer period than the period for which the enterprise zone designation remains in effect for the area in which the waiver or modification applies.

"(j) For purposes of this section, the term 'rule' means (1) any rule as defined in section 551(4) of this title or (2) any rulemaking conducted on the record after opportunity for an agency hearing pursuant to sections 556 and 557 of this title."

(b) The table of sections for such chapter is amended by redesignating "Sec. 611." and "Sec. 612." and "Sec. 613.", respectively, and inserting the following new item immediately after "Sec. 610.":

"Sec. 611. Waiver or modification of agency rules in enterprise zones."

(c) Section 601(2) of such title is amended by inserting "(except for purposes of section 611)" immediately before "means."

(d) Section 613 of such title, redesignated by subsection (a) of this section, is amended by —

(1) inserting "(except section 611)" immediately after "chapter" in subsection (a); and

(2) inserting "as defined in section 601(2)" immediately before the period at the end of the first sentence of subsection (b).

SEC. 303. COORDINATION OF HOUSING AND URBAN DEVELOPMENT PROGRAMS IN ENTERPRISE ZONES

Section 3 of the Department of Housing and Urban Development Act is amended by adding at the end thereof the following new subsection:

"(d) The Secretary of Housing and Urban Development shall —

"(1) promote the coordination of all programs under his jurisdiction which are carried on within an enterprise zone designated pursuant to 7871 of the Internal Revenue Code of 1954;

"(2) expedite, to the greatest extent possible, the consideration of applications for programs referred to in paragraph (1) through the consolidation or forms or otherwise; and

"(3) provide, whenever possible, for the consolidation of periodic reports required under programs referred to in paragraph (1) into one summary report submitted at such intervals as may be designated by the Secretary."

TITLE IV — ESTABLISHMENT OF FOREIGN-TRADE ZONES IN ENTERPRISE ZONES

SEC. 401. FOREIGN-TRADE ZONE PREFERENCES.

(a) PREFERENCE IN ESTABLISHMENT OF FOREIGN-TRADE ZONES IN REVITALIZATION AREAS. — In processing applications for the establishment of foreign-trade zones pursuant to an Act entitled "To provide for the establishment, operation, and maintenance of foreign-trade zones in ports of entry of the United States, to expedite and encourage foreign commerce, and for other purposes," approved June 18,1934, (48 Stat. 998), the Foreign-Trade Zone Board shall consider on a priority basis and expedite, to the maximum extent possible, the processing of any application involving the establishment of a foreign-trade zone within an enterprise zone designated pursuant to section 7871 of the Internal Revenue Code of 1954.

(b) APPLICATION PROCEDURE. — In processing applications for the establishment of ports of entry pursuant to an Act entitled "An Act making appropriations for sundry civil expenses of the Government for the fiscal year ending June thirtieth, nineteen hundred and fifteen, and for other purposes," approved August 1, 1914 (38 Stat. 609), the Secretary of the Treasury shall consider on a priority basis and expedite, to the maximum extent possible, the processing of any application involving the establishment of a port of entry which is necessary to permit the establishment of a foreign-trade zone within an enterprise zone.

(c) APPLICATION EVALUATION. — In evaluating applications for the establishment of foreign-trade zones and ports of entry in connection with enterprise zones, the Foreign-Trade Zone Board and the Secretary of Treasury shall approve the applications to the maximum extent practicable, consistent with their respective statutory responsibilities.

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